

**Audit of the Financial Management
Service's Fiscal Year 2001
Schedule of Non-Entity Government-Wide
Cash**

OIG-02-060

March 4, 2002



Office of Inspector General

The Department of the Treasury



OFFICE OF
INSPECTOR GENERAL

DEPARTMENT OF THE TREASURY

WASHINGTON, D.C. 20220

March 4, 2002

MEMORANDUM FOR RICHARD L. GREGG, COMMISSIONER
FINANCIAL MANAGEMENT SERVICE

FROM: *Michael Fitzgerald for*
William H. Pugh,
Deputy Assistant Inspector General
for Financial Management and Information
Technology Audits

SUBJECT: Audit of the Financial Management Service's
Fiscal Year 2001 Schedule of Non-Entity
Government-Wide Cash

I am pleased to transmit the audited Financial Management Service's (FMS) Fiscal Year (FY) 2001 Schedule of Non-Entity Government-Wide Cash (the Schedule). The Schedule was audited by Clifton Gunderson LLP, an independent public accountant (IPA). The IPA issued the following reports, which are included in the attachment:

- Independent Auditor's Report;
- Independent Auditor's Report On Internal Control; and
- Independent Auditor's Report On Compliance with Laws and Regulations.

The IPA rendered an unqualified opinion on the FMS' FY 2001 Schedule. The Independent Auditor's Report on Internal Control contained a material weakness on the effectiveness of computer controls at the Hyattsville Regional Operations Center. This weakness included [REDACTED]

The IPA's Report on Compliance with Laws and Regulations contained an instance of noncompliance relating to the Office of Management and Budget (OMB) Circulars A-127 and A-130, [REDACTED]

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The IPA issued a management letter dated December 21, 2001, discussing an issue that was identified during the audit, which was not required to be included in the audit reports.

My staff's review of the IPA's working papers determined that the work was performed in accordance with generally accepted government auditing standards. Should you have any questions, please contact me at (202) 927-5430, or a member of your staff may contact Mike Fitzgerald, Director, Financial Audits at (202) 927-5789.

Attachment

**DEPARTMENT OF THE TREASURY,
FINANCIAL MANAGEMENT SERVICE
Washington, DC**

**INDEPENDENT AUDITOR'S
REPORTS AND SCHEDULE OF
NON-ENTITY GOVERNMENT-WIDE CASH**

September 30, 2001

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Independent Auditor's Report

To the Office of Inspector General
of the Department of the Treasury and the
Commissioner of the Financial Management Service

We have audited the accompanying Schedule of Non-Entity Government-Wide Cash of the U. S. Department of the Treasury's Financial Management Service (FMS) as of September 30, 2001. This schedule is the responsibility of FMS's management. Our responsibility is to express an opinion on this schedule based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States; and applicable provisions of Office of Management and Budget (OMB) Bulletin No. 01-02, "Audit Requirements for Federal Financial Statements." Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the schedule is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the schedule. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall schedule presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the Schedule of Non-Entity Government-Wide Cash referred to above presents fairly, in all material respects, the balance of Non-Entity Government-Wide Cash managed by FMS as of September 30, 2001 in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued reports dated December 21, 2001, on our consideration of FMS' internal control over financial reporting relating to Non-Entity Government-Wide Cash and on our tests of FMS' compliance with certain provisions of laws and regulations relating to Non-Entity Government-Wide Cash. Those reports are an integral part of our audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Clifton Gunderson LLP

Calverton, Maryland
December 21, 2001



Independent Auditor's Report On Internal Control

To the Office of Inspector General
of the Department of the Treasury and the
Commissioner of the Financial Management Service

We have audited the Schedule of Non-Entity Government-Wide Cash of the U. S. Department of the Treasury's Financial Management Service (FMS), as of September 30, 2001, and have issued our report thereon dated December 21, 2001. We conducted our audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and applicable provisions of Office of Management and Budget (OMB) Bulletin No. 01-02, "Audit Requirements for Federal Financial Statements."

In planning and performing our audit, we considered FMS' internal control over financial reporting for Non-Entity Government-Wide Cash by obtaining an understanding of relevant internal controls, determined whether these internal controls had been placed in operation, assessed control risk, and performed tests of controls in order to determine our auditing procedures for the purpose of expressing our opinion on the schedule. We limited our internal control testing to those controls necessary to achieve the objectives described in OMB Bulletin No. 01-02. We did not test all internal controls relevant to operating objectives as broadly defined by the Federal Managers' Financial Integrity Act of 1982, such as those controls relevant to ensuring efficient operations. The objective of our audit was not to provide assurance on internal control. Consequently, we do not provide an opinion on internal control.

Our consideration of the internal control over financial reporting for Non-Entity Government-Wide Cash would not necessarily disclose all matters in the internal control over financial reporting for Non-Entity Government-Wide Cash that might be reportable conditions. Under standards issued by the American Institute of Certified Public Accountants, reportable conditions are matters coming to our attention relating to significant deficiencies in the design or operation of the internal control that, in our judgment, could adversely affect FMS' ability to record, process, summarize, and report financial data consistent with the assertions by management in the schedule referred to above. Material weaknesses are reportable conditions in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the schedule being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Because of inherent limitations in internal controls, misstatements, losses, or noncompliance may nevertheless occur and not be detected. We noted the following matter involving the internal control and its operation that we consider to be a material weakness.

Effectiveness of Computer Controls

FMS relies on extensive information technology systems to administer government-wide cash. Internal controls over these operations are essential to ensure the integrity, confidentiality, and reliability of critical data while reducing the risk of errors, fraud and other illegal acts.

Our review of information technology controls covered general and application controls. General controls are the structure, policies and procedures that apply an entity's overall computer systems. They include entity-wide security management, access controls, system software controls, application software development and change controls, segregation of duties and service continuity controls. Application controls involve input, processing, and output controls related to specific IT applications.

We completed a general control review at the Hyattsville Regional Operations Center and an application review of the STAR application.

[REDACTED]

Our detailed findings and recommendations are provided in a separate limited official use management letter dated December 21, 2001. A summary of the key general controls findings are as follows:

[REDACTED]

[REDACTED]

[REDACTED]

We noted other matters involving the internal control over financial reporting for Non-Entity Government-Wide Cash that we have reported to management of FMS in a separate letter dated December 21, 2001.

This report is intended solely for the information and use of the management of FMS, the Department of the Treasury Office of Inspector General, OMB and Congress, and is not intended to be and should not be used by anyone other than these specified parties.

Clifton Gundersen LLP

Calverton, Maryland
December 21, 2001



Independent Auditor's Report On Compliance With Laws and Regulations

To the Office of Inspector General
of the Department of the Treasury and the
Commissioner of the Financial Management Service

We have audited the Schedule of Non-Entity Government-Wide Cash of the U. S. Department of the Treasury's Financial Management Service (FMS), as of September 30, 2001, and have issued our report thereon dated December 21, 2001. We conducted our audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and applicable provisions of Office of Management and Budget (OMB) Bulletin No. 01-02, "Audit Requirements for Federal Financial Statements."

The management of FMS is responsible for complying with laws and regulations applicable to Non-Entity Government-Wide Cash. As part of obtaining reasonable assurance about whether the Schedule of Non-Entity Government-Wide Cash is free of material misstatement, we performed tests of its compliance with certain provisions of laws and regulations, noncompliance with which could have a direct and material effect on the determination of schedule amounts and certain other laws and regulations specified in OMB Bulletin No. 01-02. We limited our tests of compliance to those provisions, and we did not test compliance with all laws and regulations applicable to FMS.

The results of our tests of compliance disclosed the following instance of noncompliance with the laws and regulations described in the preceding paragraph that is required to be reported under *Government Auditing Standards* and OMB Bulletin No. 01-02.

Compliance with OMB Circulars A-127 and A-130

During our review of Information Technology controls, we identified several weaknesses which indicate noncompliance with OMB Circular A-127 "Financial Management Systems". These weaknesses are collectively considered a material weakness and are described in more detail in our report on internal control.

Providing an opinion on compliance with certain provisions of laws and regulations was not an objective of our audit and, accordingly, we do not express such an opinion.

This report is intended solely for the information and use of the management of FMS, the Department of the Treasury Office of Inspector General, the OMB and Congress, and is not intended to be and should not be used by anyone other than these specified parties.

Clifton Henderson LLP

Calverton, Maryland
December 21, 2001

**DEPARTMENT OF THE TREASURY,
FINANCIAL MANAGEMENT SERVICE
SCHEDULE OF NON-ENTITY GOVERNMENT-WIDE CASH
September 30, 2001
(In Thousands)**

Cash, Foreign Currency and Other Monetary
Assets (Note 2)

\$ 53,375,875

The accompanying notes are an integral part of this schedule.

**DEPARTMENT OF THE TREASURY,
FINANCIAL MANAGEMENT SERVICE
NOTES TO THE SCHEDULE OF NON-ENTITY GOVERNMENT-WIDE CASH
September 30, 2001**

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

FMS is a bureau of the U. S. Department of the Treasury (Treasury). FMS' mission is to improve the quality of the Federal government's financial management. FMS' commitment and responsibility is to help its customers achieve success. FMS does this by linking program and financial management objectives and by providing financial services, information, advice, and assistance to its customers. FMS serves taxpayers, Treasury, federal program agencies, and government policy makers.

Non-entity accounts are those accounts that FMS holds but are not available to FMS in its operations. For example, FMS accounts for certain cash that the Federal Government collects and holds on behalf of the U. S. Government or other entities. This schedule includes the non-entity government-wide cash accounts.

Basis of Accounting

The standards used in the preparation of the accompanying schedule are issued by the Federal Accounting Standards Advisory Board (FASAB), as the body authorized to establish generally accepted accounting principles for federal government entities. Accordingly, the accompanying schedule is prepared in accordance with generally accepted accounting principles.

The accompanying schedule is different from the financial reports, prepared by FMS pursuant to OMB directives that are used to monitor and control FMS' use of budgetary resources.

Intra-governmental Financial Activities

The financial activities of FMS are affected by, and are dependent upon, those of the U. S. Department of the Treasury and the Federal Government as a whole. Thus, the accompanying schedule does not reflect the results of all financial decisions and activities applicable to FMS as if it were a stand-alone entity.

**DEPARTMENT OF THE TREASURY,
FINANCIAL MANAGEMENT SERVICE
NOTES TO THE SCHEDULE OF NON-ENTITY GOVERNMENT-WIDE CASH
September 30, 2001**

NOTE 2 – NON-ENTITY CASH, FOREIGN CURRENCY, AND OTHER MONETARY ASSETS

Non-entity cash, foreign currency, and other monetary assets include the Operating Cash of the Federal Government, managed by Treasury. Also included is foreign currency maintained by various U. S. and military disbursing offices.

The Operating Cash of the Federal Government represents balances from tax collections, customs duties, other revenues, federal debt receipts, time deposits, and other various receipts net of checks outstanding, which are held in the Federal Reserve Banks (FRBs), foreign and domestic financial institutions, and in U. S. Treasury tax and loan accounts.

The Operating Cash of the Federal Government includes compensating balances, totaling \$13.4 billion as of September 30, 2001. These balances are deposited interest free to compensate commercial banks for services provided on behalf of the Federal Government (such as handling over the counter deposits for federal program agencies, providing lockbox services for agency collection programs, etc.). Operating cash of the Federal Government is either insured (for balances less than \$100,000) by the Federal Deposit Insurance Corporation, or collateralized by securities pledged by the depository institutions and held by the FRBs.

This information is an integral part of the accompanying schedule.